

**MINUTES OF A MEETING
KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
BOARD OF DIRECTORS**

July 21, 2016

A Regular Meeting of the Board of Directors of the Kentucky Workers' Compensation Funding Commission was held on July 21, 2016, in the Commission's conference room, located at #42 Mill Creek Park, Frankfort, Kentucky. Madam Chair Judy Long called the meeting to order, verified that proper notice had been given to the media and Board members, and asked for a roll call.

Directors Present:

Judy Long, Self-Insured Employers Representative
Bill Finn, Labor Representative
Derrick Ramsey, Secretary, Labor Cabinet
Edwin King, Designee for Secretary William Landrum, Finance & Administration Cabinet
Lauren Moore, Proxy, Interim Secretary Erik Dunnigan, Cabinet for Economic Development
Duran Hall, Commercially Insured Employers
Michelle Landers, KEMI, Insurance Representative

Others Present:

Reuben Jones - Executive Director, KWCFC
Renee Haddix - Director of Audit and Collections, KWCFC
Louie Hord - Director of Fiscal Operations, KWCFC
Lisa King - Audit Review Manager, KWCFC
Tammera Nolen - Fiscal Services Officer, KWCFC, Recorder
Michael Swansburg - General Counsel, Labor Cabinet
Brooken Smith - Chief of Staff, Labor Cabinet
Stephen Jones - Office of Financial Management
James Closson - Liberty Mutual Insurance
Dwight Lovan - Commissioner, Dept. of Workers' Claims
Christine Gordley - OSBD
Chris Lewis - Director, Personnel Cabinet
Michael Nemes - Deputy Secretary, Labor Cabinet

Approval of Minutes:

Lauren Moore made a motion to approve the May 19, 2016 minutes. Bill Finn seconded. Motion carried.

Financial Report: Louie Hord (report on file for referral)

Louie Hord reviewed year to date budget versus actual expenses for KWCFC, the year to date internal financial statements, and fiscal year to date interagency transfers made

by KWCFC for the period ending June 30, 2016. Michelle Landers made the motion to accept the report as presented. Bill Finn seconded the motion. Motion carried.

Investments: Steve Jones, OFM (report on file for referral)

Steve Jones reported as of June 30, 2016 the special fund has over \$50 million in cash. This is well in excess of liquidity needs. The opportunity exists to invest some of this money into the 10 - Year Treasury area of the market, yielding nearly 1% more. The Special Fund cash balance is projected to drop to \$26 million in October prior to receiving 3rd quarter assessments and a \$15 million maturity of US Treasury.

Steve Jones provided background information concerning auctions. He stated the United States treasury auctions 10 year treasuries every quarter. These securities tend to go "special" shortly after each auction as the demand for the security exceeds supply meaning that an owner can get paid up to 3% for loaning out the security. If the Funding Commission had held \$50 million of the "current" or most recently sold 10 year over the past year, the securities lending program would have earned roughly \$100,000 additional securities lending income.

In order to take advantage of these situations, the recommendation is to purchase \$50 million par of the current 10 year treasury using \$15 million of existing cash and \$35 million generated from sale of current securities. Subsequently, this \$50 million shall be "rolled" into a new 10 year after each auction. Specific Recommendations:

1. The Board directs the sale of \$10 million par of cusip 912828UN8 and \$25 million par (all) of cusip 912828D56.
2. The Board directs the purchase of \$50 million par of 912828R36.
3. The Board delegates to Stephen Jones the authority to roll the \$50 million investment into the newly issued 10 year treasuries at or shortly after upcoming auctions.
4. The Board delegates the authority to Reuben Jones and Stephen Jones to sell \$15 million of cusip 912810DX3 prior to maturity if both agree such action is needed to meet cash needs.
5. The Board directs OFM to report on results of these transactions at subsequent meetings.

After hearing Steve Jones' recommendations the Board had concerns over the cash flow of the Special Fund. Steve stated that depending on the collections, transfers, and until a \$15 million US treasury matures in November, the possibility exists that there may not be enough cash to fund transfers and the Special Fund account could go negative. After much discussion, the Board agreed to the following specific recommendations:

1. The Board directs the sale of \$10 million par of cusip 912828UN8 and \$25 million par (all) of cusip 912828D56.
2. The Board directs the purchase of \$50 million par of 912828R36.

3. The Board delegates to Stephen Jones the authority to roll the \$50 million investment into the newly issued 10 year treasuries at or shortly after upcoming auctions.

Edwin King made the motion to approve recommendations 1, 2 & 3 of the report at this time. If there is a cash flow issue, at that point in time or at the September meeting we will discuss what steps are necessary to generate additional cash.

Derrick Ramsey seconded. Motion carried.

Steve noted that the Wells Fargo Mutual Fund was under performing against its' peers and recommends liquidating the Fund. Steve also recommended that the Fund be invested into the current DFA & Vanguard Funds to equalize positions. That entails purchasing roughly \$2.5 million of DFA and \$1.5 million of Vanguard.

Judy Long recused herself from any discussions regarding Wells Fargo due to potential conflict of interest.

Derrick Ramsey made a motion to accept Steve Jones' recommendation to liquidate the Wells Fargo Mutual Fund and reinvest the fund in the current DFA and Vanguard funds to equalize positions. Bill Finn seconded. Motion Carried.

Derrick Ramsey made the motion to accept the investment report as presented. Bill Finn seconded. Motion carried.

Contract Update: Reuben Jones (report on file for referral)

Reuben Jones gave an update on the Contract status. Three of the Contracts (Actuarial Study, Outside Legal Counsel & Financial Audit) have been finalized and are in place for the new fiscal year. The D&O Insurance contract is not renewable until the fall of 2016.

Audit & Collections Update: Renee Haddix (report on file for referral)

Renee Haddix presented an update on the number of audits ongoing, as well as, audits completed under the accelerated audit cycle. She reported that the audit staff is on track to meet goals for the 2 - year audit cycle.

Duran Hall made the motion to accept as presented. Derrick Ramsey seconded the motion. Motion carried.

Liberty Mutual Presentation James Closson – Director of Corporate Tax group

James Closson gave an oral presentation to the board requesting consideration for three penalty waiver requests that Liberty Mutual currently has in pending status. One is from an error in the QPR filing; another is from an amended QPR filing that is a result of the 2011/2012 audit period. The third is the result of the 2011/2012 audit. James

Closson stated as part of his rationale for wavier is that Liberty Mutual has worked with the Funding Commission and has modified their accounting practices into alignment with the Kentucky statutes and regulations.

Executive Session:

Judy Long, Chair, asked for a motion to go into executive session under KRS 61.810 (1) (c), (f) and (j) to discuss personnel, penalty waivers and litigation.

Duran Hall made the motion to go into executive session. Bill Finn seconded the motion. Motion carried.

Open Session:

Bill Finn made the motion to return to open session. Derrick Ramsey seconded. Motion carried.

Penalty Waivers:

Alliance Coal: Bill Finn made the motion to waive penalty in the amount of \$1,953.00 for late filing of the 4th Quarter 2015 Quarterly Premium Report, on a one-time only basis on the condition the remaining penalty of \$5,859.01 is paid in the next 10 business days. Durand Hall seconded the motion. Motion carried.

Liberty Mutual Insurance: Duran Hall recused himself due to potential conflict of interest. Bill Finn made the motion to deny Liberty Mutual Group's penalty waiver request for the revised filing of the 1st Quarter 2015 Quarterly Premium Report. Derrick Ramsey seconded. Motion carried.

Liberty Mutual Insurance: Duran Hall recused himself due to potential conflict of interest. Bill Finn made the motion to deny Liberty Mutual Group's penalty waiver request for the 2011-2012 Audit Period and the revised filing of the 2nd Quarter 2015 Quarterly Premium Report. Derrick Ramsey seconded. Motion carried.

Personnel:

Bill Finn made the motion to allow the Executive Director to hire an Auditor Level I position at a salary of \$36,000. Derrick Ramsey seconded the motion. Motion carried.

Bill Finn made the motion to allow the Executive Director to hire an Audit Support position at a salary range of \$24,000 to \$28,800. Duran Hall seconded the motion. Motion carried.

Bill Finn made the motion to allow the Executive Director to hire a General Counsel position at a salary range of \$64,000 to \$72,000. Duran Hall seconded the motion. Motion carried.

Adjournment:

Michele Landers made the motion to adjourn. Bill Finn seconded the motion. Motion carried.


Chairman of the Board